

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**SB 1203 – HB 2085**

June 17, 2009

**SUMMARY OF AMENDMENTS (009920, 010226):** Amendment 009920 deletes the language of the original bill. Creates a new economic development program, to be administered by the Department of Economic and Community Development (ECD) in conjunction with the Department of Revenue (DOR), known as the Tennessee Small Business Investment Company Credit Act (TSBICCA). The TSBICCA authorizes an aggregate maximum of \$120,000,000 in investment tax credits, to be offset against the gross premium tax liabilities of certain insurance companies who qualify as participating investors for the purpose of serving as economic development incentives. Requires authorized tax credits be used against tax gross premiums tax liabilities for tax years 2012 through 2019. Amendment 010226 adds language that declares profit share percentage distributions first be made to the General Fund for the purpose of offsetting any decrease of revenue that would occur due to the authorization of investment tax credits; subsequent distributions and additional tax revenue generated from the act shall then be allocated to the Rural Opportunity Fund to further support the state's economic development efforts.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Revenue –

\$37,500/FY09-10/Economic and Community Development  
\$25,000/FY10-11 and Subsequent Years/Economic and  
Community Development

Decrease State Revenue – Net Impact

Exceeds \$5,000,000/FY13-14 through FY16-17/General Fund

Increase State Expenditures – \$190,000/Recurring

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

**Increase State Revenue – Net Impact – Exceeds \$10,500,000/Over  
Time/Rural Opportunity Fund**

**Increase State Revenue –**

**\$190,000/Economic and Community Development/Recurring**

**SB 1203 – HB 2085**

**Increase State Expenditures –  
\$190,000/Economic and Community Development/Recurring**

**Other Fiscal Impact – The authorization of investment tax credits would cause a decrease of revenue to the General Fund of \$120,000,000 unless such revenue is replaced by another source of revenue. This total decrease would occur over a nine-year period (FY11-12 through FY19-20). However, the first \$120,000,000 of profit share percentage distributions made from TNInvestcos to the state shall be allocated to the General Fund for the purpose of offsetting any such decrease that would occur due to the authorization of investment tax credits. As a result, the net impact to the General Fund is not significant. Any subsequent distributions and additional tax revenue generated from this act will then be allocated to the Rural Opportunity Fund and used to further support the state’s economic development efforts.**

Assumptions applied to amendments:

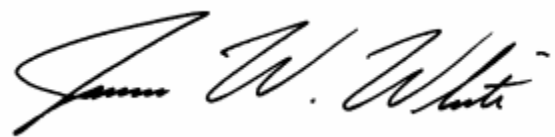
- According to ECD, the Department will require one additional position to administer the program. The associated increase to recurring state expenditures is estimated to be \$70,000 per year (\$43,600 salary, \$21,400 benefits, \$5,000 other).
- According to ECD, the Department will need to contract with an experienced certified public accounting firm for auditing services to ensure program compliance. The associated increase to recurring state expenditures is estimated to be \$120,000 per year.
- The total increase to recurring state expenditures is estimated to be \$190,000 per year (\$70,000 + \$120,000 = \$190,000).
- Participating investors are required to file application with ECD and pay a one-time non-refundable application fee of \$7,500, as well as annual certification fees of \$5,000 each year (or \$10,000 if paid after April 1 of each year). In addition, and pursuant to Section 12(a) of this bill as amended, ECD will collect additional fees from any qualified Tennessee investment company (TNInvestco) for offsetting costs related to the conducting of annual reviews. ECD indicates that revenue derived from these sources is anticipated to cover expenditures incurred by the Department for implementation. Therefore, an increase to recurring state revenue estimated to be approximately \$190,000 per year.
- Gross premium tax revenue is deposited to the General Fund.
- Given the aggregate maximum of investment tax credits is established at \$120,000,000, and that such tax credits are to be utilized over a nine-year period, it is estimated that gross premium tax revenue to the

General Fund would decrease by \$120,000,000 over a nine-year period (from FY11-12 through FY19-20) unless replaced by another source of revenue.

- Pursuant to Section 3(9) and Section 10 of this bill as amended, the state may receive distributions which are considered profit share percentage distributions. The term “profit share percentage” is defined as a fee paid to the state by a qualified TNInvestco in an amount equal to 50 percent of all distributions or payments made by the qualified TNInvestco that are not: (A) classified as qualified distributions; or (B) distributions or repayments of capital contributions by the TNInvestco’s equity owners who are not participating investors.
- Pursuant to Sections 9 and 10(a) of the bill as amended, any such distributions shall first be deposited to the General Fund for the purpose of offsetting any decrease of revenue that would occur due to the authorization of investment tax credits. Any subsequent distributions and additional tax revenue generated from this act will then be allocated to the Rural Opportunity Fund and used to further support the state’s economic development efforts.
- According to DOR, the capital investment ventures undertaken by the TNInvestcos will produce at least a twelve percent rate of return.
- Based on information provided by DOR, profit share percentage distributions from TNInvestcos to the state are expected to exceed \$130,500,000 over time. The first \$120,000,000 of such distributions will be allocated to the General Fund; an amount estimated to exceed \$10,500,000 will be allocated to the Rural Opportunity Fund.

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White".

James W. White, Executive Director

/rnc